

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 TRSE-00 IO-10 EA-06 COME-00

CIAE-00 INR-07 NSAE-00 AID-05 FRB-03 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 /065 W

----- 077734

R 281530Z APR 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9687

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

C O N F I D E N T I A L SECTION 01 OF 02 BONN 06827

DEPARTMENT PASS TREASURY

E.O. 11652: GDS

TAGS: EFIN, ECON, GW

SUBJECT: FRG INDUSTRIAL PRODUCTION FORECAST : IMPACT
ON EMPLOYMENT

REF: STATE 95313; BONN 1837; BONN A-169

1. THE CURRENT EMBASSY FORECAST OF GERMAN INDUSTRIAL
PRODUCTION IS BASED ON THE SAME SET OF ASSUMPTIONS
CITED IN PARAGRAPH 1 REF EMBTEL. SINCE THE LAST SUCH
REPORT, HOWEVER, THREE MONTHS MORE DATA (THROUGH
FEBRUARY 1975) HAS BECOME AVAILABLE. THIS DATA IS
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SOMEWHAT LOWER THAN THAT ORIGINALLY FORECASTED AS

PRODUCTION TOOK A MUCH STEEPER DIVE AT YEAR'S END 1974 AND IN THE FIRST MONTHS OF 1975 THAN WAS ANTICIPATED. ACCORDINGLY, THE TOTAL PRODUCTION FOR BOTH YEARS HAD TO BE REVISED DOWNWARD IN THE CURRENT FORECAST.

2. ON A SEASONALLY ADJUSTED BASIS, NEW INDUSTRIAL ORDERS, THE BEST INDICATOR AVAILABLE OF FUTURE INDUSTRIAL PRODUCTION, HAVE STABILIZED IN THE FIRST QUARTER 1975 AS COMPARED WITH THE LAST QUARTER 1974. THIS IS THE FIRST TIME THE NEGATIVE TREND IN THIS IMPORTANT BUSINESS WEATHERVANE HAS HALTED SINCE THE SECOND QUARTER 1974 AND IS TAKEN AS A SIGN THAT INDUSTRIAL PRODUCTION WILL, WITH THE USUAL CYCLICAL LAG, LIKEWISE STABILIZE AND THEN TURN POSITIVE. THIS CROSSING INTO POSITIVE TERRITORY WILL LIKELY OCCUR IN THE THIRD QUARTER OF THIS YEAR ACCORDING TO THE PRESENT FORECAST. IN THIS SENSE, THERE IS NO CHANGE FROM THE PREVIOUSLY PREDICTED PATTERN.

3. EXAMINATION OF THE CURRENT CYCLICAL SITUATION BEARS REMARKABLE SIMILARITY TO THAT OF 1966-67. THIS IS PARTICULARLY APPARENT WHEN COMPARING THE CURVES FOR THE CHANGE RATE OF SEASONALLY ADJUSTED QUARTERLY DATA ON NEW INDUSTRIAL ORDERS, INDUSTRIAL PRODUCTION AND GNP. ACCORDINGLY, WE HAVE ADOPTED THE PREMISE THAT THE PATTERN FOR RECOVERY FROM THE CURRENT SLUMP WILL BE THE SAME AS THAT FOLLOWED IN 1967-68 IN TERMS OF THE RATE OF CHANGE FROM ONE QUARTER TO THE NEXT IN SEASONALLY ADJUSTED TERMS. INHERENT IN THIS ASSUMPTION IS THAT EXPORT DEMAND SLACKNESS, NOT PRESENT IN THE 67-68 RECOVERY, WILL BE COMPENSATED FOR BY AN INCREMENTALLY HIGHER RATE OF GROWTH IN DOMESTIC DEMAND. THIS ASSUMPTION IS OPTIMISTIC, AND WITHOUT IT GROWTH RATES WOULD BE LOWER, PARTICULARLY IN THE LAST HALF OF 1976.

4. UTILIZING THE SAME FORECASTING TECHNIQUE DESCRIBED ABOVE WITH THE GNP DATA, THE EMBASSY ARRIVED AT A FIGURE OF NEGATIVE 0.5 PERCENT GROWTH FOR 1975 AND
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ABOVE 5 PERCENT FOR 1976. THESE RATES ARE ROUGHLY CONSONANT (SLIGHTLY LOWER FOR 1975 AND SLIGHTLY HIGHER FOR 1976) WITH THOSE REPORTED IN EMBASSY'S A-169 AS BEING THE CONSENSUS OF THE GERMAN ECONOMIC RESEARCH INSTITUTES.

5. GROWTH RATES FOR SEASONALLY ADJUSTED GNP AND INDUSTRIAL PRODUCTION DATA, COMPARING EACH QUARTER

WITH THE PREVIOUS ONE IN REAL TERMS:

	1975	1976		
	GNP	IND PROD	GNP	IND PROD
1ST QUARTER	-0.5	-2.5	2.0	0
2ND QUARTER	0.5	-0.9	1.0	5.7
3RD QUARTER	1.0	3.5	2.5	2.3

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TO SECSTATE WASHDC 9688

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

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4TH QUARTER	2.5	4.2	3.5	4.5
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6. INDUSTRIAL PRODUCTION INDEX, SEASONALLY

ADJUSTED (1962 EQUALS 100):

	1973	1974	1975	1976
1ST QUARTER	176	178	163	174
2ND QUARTER	177	177	162	184
3RD QUARTER	177	174	167	188
4TH QUARTER	180	170	174	196

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7. IT WILL BE NOTED THAT THE FORECASTED 1976 PRODUCTION LEVEL IS ONLY 4.5 PERCENT HIGHER THAN THREE YEARS EARLIER IN 1973. ON THE OTHER HAND, PRODUCTIVITY INCREASES PER WORKER HAVE HISTORICALLY RISEN AT ABOUT 5 PERCENT PER YEAR IN GERMANY. THIS PHENOMENON MEANS THAT THE SIZE OF THE INDUSTRIAL WORK FORCE REQUIRED IN 1976 COULD BE ABOUT 10 PERCENT LESS THAN IN 1973. IN ROUND NUMBERS, THIS WOULD EQUATE TO ONE MILLION FEWER JOBS THAT WOULD BE AVAILABLE IN INDUSTRY IN 1976 THAN IN 1973. WHILE THERE ARE CURRENTLY SOME 2 MILLION FOREIGN WORKERS IN GERMANY, IT, OF COURSE, CANNOT BE ASSURED THAT THEY WILL ENTIRELY ABSORB THIS SHRINKAGE OF JOB OPPORTUNITIES. CONCLUSION: WHILE ECONOMIC GROWTH MAY BE RELATIVELY HIGH AND THE UNEMPLOYMENT RATE REDUCED SOMEWHAT FROM ITS PRESENT LEVEL IN ELECTION YEAR 1976, THERE STILL WILL NOT BE A RETURN TO THE FULL EMPLOYMENT CONDITIONS OF EARLIER YEARS. HIGHER UNEMPLOYMENT RATES THAN IN PREVIOUS GOOD ECONOMIC YEARS AND MORE THAN THE ACCUSTOMED NUMBER OF SHORT-TIME WORKERS WILL LIKELY PERSIST THROUGH NEXT YEAR EVEN UNDER THE MOST OPTIMISTIC OF ASSUMPTIONS.

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